

# Sri Lanka Economic Crisis

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## ABSTRACT

Sri Lanka's frugality was in trouble indeed before the Covid epidemic struck. The lockdowns further added to its straits and impacted the informal sector hard, which accounts for nearly 60 per cent of the country's pool. The country's foreign exchange reserves have fallen 70 per cent in the once two times to about 2.31 billion, leaving it floundering to pay for essential significances, including food and energy. The fiscal extremity also stemmed from a critical shortfall in foreign currency, leaving dealers unfit to finance significances. Tourism, one of the crucial source of foreign exchange for the country, was poorly hit due to the Covid epidemic. either, remittances from Sri Lankans working overseas also declined sprucely. The country is left with foreign reserves of only around 2.31 billion as of February, indeed as it faces debt payments of about 4 billion through the rest of the time. 3

## 1. INTRODUCTION

The 2019–2022 state depression is associated with the current economic crisis within the island nation of Sri Lanka for the most part attributed to the economic direction of the incumbent government, leading to unprecedented levels of inflation, near-depletion of Foreign Exchange modification reserves, shortages of medicative provides and inflation of basic commodities. The crisis has aforementioned to be caused by multiple change of integrity factors like tax cuts, cash creation, a nationwide policy to shift to organic or biological farming furthermore as events like the Easter bombings in 2019 and therefore the impact of the COVID-19 pandemic. the next economic hardships resulted within the public overtly registration their dissent, resulting in one amongst the biggest demonstrations within the island's history one. With the country's moneymaking tourism trade and foreign workers' remittances sapped by the pandemic, credit ratings a pair of. In turn, Sri Lanka's debt management programme, that trusted accessing those markets. 3. The Rajapaksa government's call to ban all chemical fertilisers in 2021, a move that was later reversed Treasury Secretary and any member of the govt. from becoming back members of the financial Board. cash printing was additionally to be illegal because the bill states "The financial organisation shall not purchase securities issued by the govt., by any government-owned entity, or the other public entity within the primary market.". Then financial organisation Governor, Dr. Indrajit Coomaraswamy noted Balance of Payments problems, accrued inflation, and plus bubbles as reasons for the ban. The state Podujana Party diode by the Rajapaksas op

## 2. LITERATURE REVIEW

1) The Government of Sri Lanka under president Gotabaya Rajapaksa made large tax cuts that affected government revenue and fiscal policies, causing budget deficits to soar.

2) These cuts included increased tax-free thresholds that resulting in a 33.5 percent decline in registered taxpayers, reducing VAT to 8 percent, reducing corporate tax from 28 percent to 24 percent, the abolishment of the Pay As You Earn (PAYE) tax and the 2 percent "nation-building tax" which financed infrastructure development.

3) The massive loss of tax revenue resulted in rating agencies downgrading the sovereign credit rating making it harder to take more debt.

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## 3. PROBLEM DEFINATION

1) On the surface the cause for Sri Lanka's current economic crisis can be attributed to economic mismanagement by successive governments and a string of ill-advised decisions such as banning the use of chemical fertilizers and deep tax cuts promised by President Rajapaksha during his 2019 election campaign months before the COVID-19 pandemic decimated Sri Lanka's major tourism sector and also stopped foreign remittances.

2) The economic crisis began little over two years ago and during that time Sri Lanka has exhausted over 70 of its foreign reserves and now is only left with 2 billion in foreign reserves.

3) In addition, Sri Lanka also has a whopping 7 billion in debt due in 2022. And that is where the main problem lies, Sri Lanka's ever growing debt and its over reliance on China for money for investments into infrastructure projects for the island nation.

#### 4. OBJECTIVE SCOPE

1) Sri Lanka must repay concerning four billion value of debt this year, together with a one billion international sovereign bond maturing in July. however its reserves swayback to two.31 billion as of finish Feb, down around seventy per cent from 2 years past

2) Over the last decade China has Lent country over five billion for the development of highways, ports, associate degree aerodrome and a coal powerhouse. however critics say the funds were used for white elephant comes with low returns, that China has denied.

3) The International money (IMF) in associate degree analysis, discerned that the country's "debt overhang," beside persistent fiscal and balance-of-payments shortfalls, "will constrain growth and jeopardize economic science stability in each

#### 5. RESEARCH METHODOLOGY

Economic crisis has done numerous damages into the variables of economic science in many ways that. in step with the Sri Lanka's scenario, I will make a case for this idea by exploitation many statistics and papers. notably, this crisis attacked variables primarily, state, Inflation, Economic growth, Export, Import and that i am explaining these variables below. he state of being jobless or not having a job; "unemployment may be a serious social evil"; "the rate of unemployment is AN indicator of the e health of AN economy. In Srilanka's scenario, we are able to see the below chart to grasp the unemployment up and down clearly.

#### 6. • CAUSES FORCING TO THE STUDENTS JOINING FOR ABROAD MEDICAL EDUCATION

1) Tax cuts and money creation. The Government of Sri Lanka under president Gotabaya Rajapaksa made large tax cuts that affected government revenue and fiscal policies, causing budget deficits to soar.

2) External debt.

3) Fall of foreign remittances.

4) Tourism.

5) Agricultural crisis.

6) Russo-Ukrainian War.

#### 7. CONCLUSION

• The conclusion here is that the free market economic policies if not managed properly, are undesirable in terms of achieving true economic development and improve the quality of life of the people.

It is interesting to note that United Nations, Food Agricultural Organization (FAO) has last week reported that agricultural sector is more resilient to global financial crisis than any other sector of the economy. Our farmers have been working on this premise anyway.

As I stated the carbon dioxide emissions per capita in metric tons, based on 2004 figures : Sri Lanka- 0.6(Low); India-1.2; Brazil- 1.8; China-3.9; we are even better than "BRIC" countries and US figure was as high as 20.6 per capita in metric tons (World Development Report 2009).

#### 8. SOLUTION FOR ECONOMICAL CRISIS

1)Fiscal policy – once the govt influences demand through dynamic payment or taxes. Government investment in new infrastructure (e.g. New Deal within the 1930s) helps to stimulate demand and creates jobs.

2)Income tax cuts – increasing the income of staff, encouraging them to pay. Monetary policy – once financial organization influences demand and provide of cash.

3)Cutting interest rates – makes borrowing cheaper and may increase the income of companies and households – resulting in higher payment. Quantitative easing – once financial organization creates cash and buys bonds to scale back bond yields and cash – once the financial organization creates (prints) cash and offers it to everybody within the economy.

5)Supply-side policies – long policies to do and improve productivity and potency within the economy. Free market supply-side policies – reducing government intervention within the economy, e.g. lower taxes Interventionist policies – government payment on education and coaching IMF bailout – International Monetary Fund provide cash to stem the loss of confidence and implement structural adjustment policies, e.g. higher collecting, privatisation, worth easement. Government bailout of industries/banks. to forestall loss of confidence in money sectors.

6)Interest rate cut – The Bank of England and therefore the Fed have cut interest rates. this may provide some relief to businesses and homeowners (they will have lower mortgage costs). However, it's unlikely to stimulate demand or make that much difference. during a difficult climate, business won't start investing thanks to a minor cut in interest rates. Many gig-economy workers won't notice the rate cut. In essence, the rate of interest cut is outweighed by negative sentiment.

7) Income tax cut– Proposed by the White House, a payroll (income) tax cut increases income and in theory, may encourage spending. However, an taxation cut doesn't help those most littered with the crisis. Those made unemployed or the self-employed who see a fall in income. Also, many householders will probably save the tax cut – thanks to low confidence and uncertainty. Helicopter Money- This involves the financial organization creating money and giving a set amount to everyone. This avoids means-testing and means those badly affected will get some income. In normal circumstances, printing money causes inflation. But, at the instant, there's a greater threat from deflationary pressures.

8)Higher unemployment/sickness benefits- Higher benefits for those sick or unemployed – and make it easier to assert benefits. this may make big difference to those on the fringes of the economy. it'll enable them to stay spending and pay their rent. Higher benefits are disliked by people who think it creates disincentives to figure.

9)Expansionary economic policy – Higher spending on public investment can kickstart the economy. But, this is often a slow policy to act.

10) Rent relief/mortgage relief – Since this could persuade be a really short-run but steep crisis, the opposite option is to force banks

## Tumbling Reserves

Sri Lanka's forex reserves depleted after two years of the pandemic

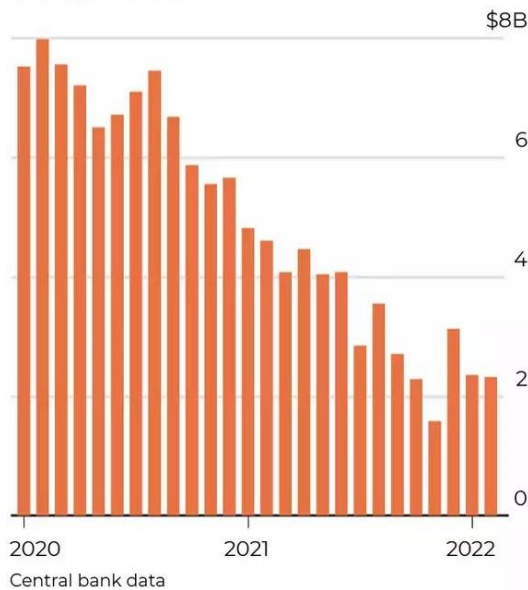


Fig. 1. Sri Lanka Economic Crisis Graph.

to permit those with lost income to delay paying rent/mortgage relief or the govt can give relief on tax bills and rates. this might make a difference between bankruptcy and surviving for firms on the sting after fall in demand. To some extent, there are not any policies which will prevent a slump in demand, once you get a crisis like this. But, the govt. can

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